

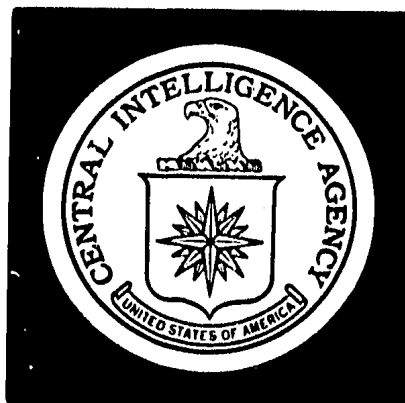
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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*Mexico: Economic Progress And Problems*

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January 1970

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
January 1970

INTELLIGENCE MEMORANDUM

Mexico:  
Economic Progress And Problems

Introduction

By most standards, Mexico's economic progress since the mid-1930s has been exceptional. This progress owes much to the political stability and economic policies experienced under the long rule of the Institutional Revolutionary Party (PRI), which has a near monopoly of political power. Some serious social and economic problems remain, of course, and they may intensify during the next several years unless appropriate measures are taken. These problems could in time undermine political stability and the responsible economic approach that rests on it. This memorandum reviews Mexico's record of economic progress since 1950 and focuses on the issues that the country will be facing under Luis Echeverria, who recently was selected as the PRI's candidate for President in the July elections and -- barring some mishap -- will begin a six-year term in December 1970.

*Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.*

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Factors in Development

1. Sixty years ago a great social revolution swept Mexico. Its violent phase lasted until 1930 and entailed heavy costs. The population fell from 15.2 million in 1910 to 14.3 million in 1921 in spite of relatively high birth rates. Production of corn and beans -- the staples of the Mexican diet -- declined by one-third during this period. Mineral output dropped about 65% during 1910-14. The transportation system was almost totally destroyed during the two decades of violence, and a large part of the nation's educated minority was killed or fled into exile. Foreign investment, which had been substantial during the Porfirio Diaz dictatorship (1876-1910), came to a stop. Yet, within this period of chaos and national catharsis, the basis was laid for impressive economic success. The average 6% growth rate that Mexico has achieved since 1935 exceeds that of the United States and Japan and probably is the world's highest for this period.

*Political Stability*

2. The leadership of the Revolution, which eventually coalesced into the PRI, has been singularly successful in creating a political environment favorable to economic progress. The PRI established its rule by absorbing almost all elements of Mexican society and breaking the power of those that it could not absorb (the aristocracy, the church, and foreign investors). It promised land to the peasants, higher living standards for the workers, and reasonable profits for businessmen. By redeeming these promises effectively for most Mexicans, the PRI has muted class divisions and secured political stability.

*Sound Economic Strategy*

3. Political tranquility has permitted Mexican governments to follow reasonably balanced, forward-looking economic policies since the mid-1930s. Their strategy for economic development -- although never clearly formulated in public statements and changing in emphasis from administration to administration -- has had the following four main elements:

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a. Maintenance of conservative fiscal and monetary policies.

b. Strong emphasis on domestic savings rather than on foreign capital in obtaining an adequate rate of investment.

c. Careful development of industry to satisfy a growing share of domestic needs.

d. Achievement of relatively rapid agricultural growth, even though natural conditions are unfavorable in some respects.

Pursuit of these objectives has, in turn, helped to encourage foreign investment, to increase job opportunities, and to diversify and otherwise expand exports.

4. The program for agricultural progress has been a mixture of radical land reform, extensive public investment in infrastructure projects, technical and financial assistance to farmers, and strengthened incentives to produce. Mexico's attempts at land reform before 1934 were formulated for social and political reasons and may have contributed to the temporary drop in agricultural production. Although land reform has permitted creation of many small peasant-operated plots of continuing low productivity, it also has considerably increased the number of moderate-sized private commercial farms, which have accounted for a large part of the increase in agricultural production. Although land reform has permitted creation of many small peasant-operated plots of continuing low productivity, it also has considerably increased the number of moderate-sized private commercial farms, which have accounted for a large part of the increase in agricultural production. Between 1950 and 1960 the total cultivated area increased 21% and the irrigated area 40%. Since 1960 the cultivated area has been expanded by another 25%, largely through the extension of irrigation. In 1968 alone, almost 250,000 acres were put under irrigation for the first time. Widespread construction of farm-to-market roads and provision of extension services and easy credit also have contributed to agricultural progress.

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5. Industrial development policy has focused largely on import substitution. Although many peasants remain outside the money economy, the Mexican market is large enough -- population is nearly 50 million and per capita incomes are increasing -- to allow greater diversification of output and more economies of scale than are feasible in most other Latin American countries. In order to create domestic industry on the doorstep of one of the world's greatest manufacturing nations, however, Mexico has had to resort to high protective tariffs. At the same time, costs have been held down by keeping wage increases in line with productivity gains in most cases and by imposing low prices for energy inputs such as oil and electricity. Mexican economic strategists generally recognized that prices for Mexican-built machinery and equipment would be relatively high and that continuing imports of many types would be necessary for a long time. But they anticipated correctly that domestic industry could supply most needs for consumer goods and industrial raw materials and also help to diversify exports.

6. Careful fiscal and monetary management has been a hallmark of postwar Mexican governments. They have consistently maintained substantial surpluses in the public sector's current account. Although these savings have not been sufficient to cover investment expenditures fully -- the balance being financed by borrowing from banks -- the resulting deficits have had little inflationary impact because of the tight credit policy for the private sector. All public enterprises except the railroads generally have been profitable and have not required transfers from the federal government. Most of them have financed some of their investment programs by issuing bonds and other interest-bearing obligations in foreign markets. By limiting budget deficits and private credit, the governments have held the expansion of the money supply to an average rate only slightly above that of real output. No devaluation of the peso has been necessary since 1954.\*

7. In a continuing reaction to the pre-revolutionary situation wherein foreign capital

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dominated the economy and domestic capital looked for safe havens abroad, postwar governments have stressed the financing of investment with domestic savings. This has been accomplished by creating conditions under which domestic capital could safely earn profits in Mexico at least as great as those obtainable elsewhere. Foreign capital has been sought only to the extent consistent with the policy of "Mexicanization," which generally prohibits majority ownership of Mexican firms by foreign interests.

*Effective Government Control*

8. To promote their economic programs, Mexican governments have strongly influenced decision-making in the private sector. Since 1955, for example, private investment has been guided by the Law of New and Necessary Industries, which provides various tax concessions for favored industries. The government also has channeled domestic savings by allowing specified types of loans and investments to be applied against specified proportions of a 100% reserve requirement against new bank resources. Since March 1967, for example, commercial banks in the Federal District have had to maintain the equivalent of 25% of their new demand liabilities in specified lending activities -- notably credits for agriculture, producers' equipment, and mortgages. This system has been used to direct a large part of private savings into production as opposed to commercial activity. Most of the governments have stimulated and diversified agricultural output by providing price supports and credit for certain crops.

9. Since foreign competition is felt only weakly or not at all in the protected domestic market, the governments sometimes have pressured enterprises to modernize. Firms reluctant to introduce new technology, to reinvest an appropriate share of their earnings, to cut costs, or otherwise to follow the dictates of the government have sometimes come under considerable pressure. In some instances, for example, the government has increased foreign competition for a recalcitrant firm by relaxing import rules or allowing the entry of new domestic firms into the field, has made it more difficult to obtain export permits or

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bank credit, or has inspired (or threatened to inspire) PRI-controlled unions to cause trouble.

*Proximity to Expanding US Economy*

10. In recent decades, Mexico has benefited considerably from its ties with the expanding US economy -- ties that are mainly the result of its location. Receipts from US tourists have increased greatly since 1950, reaching \$590 million in 1967 and \$630 million in 1968, when Mexico City was host to the Summer Olympic Games. US tourists now account for 55% of all tourist spending. The balance of payments also has benefited from the repatriated earnings in the past of legal Mexican "braceros" and illegal "wetbacks" and, more recently, of "green card workers," who live in Mexico but work in the United States. Moreover, Mexican workers have not had to cross the border in recent years to work for US industry; a "border industry" program was initiated in 1966, under which American firms have established assembly and reexport operations in Mexico to take advantage of its cheaper labor. In addition, Mexico's location has facilitated development of sizable exports of winter fruits and vegetables to the US market and has been used to justify a special "overland" quota for petroleum exports.

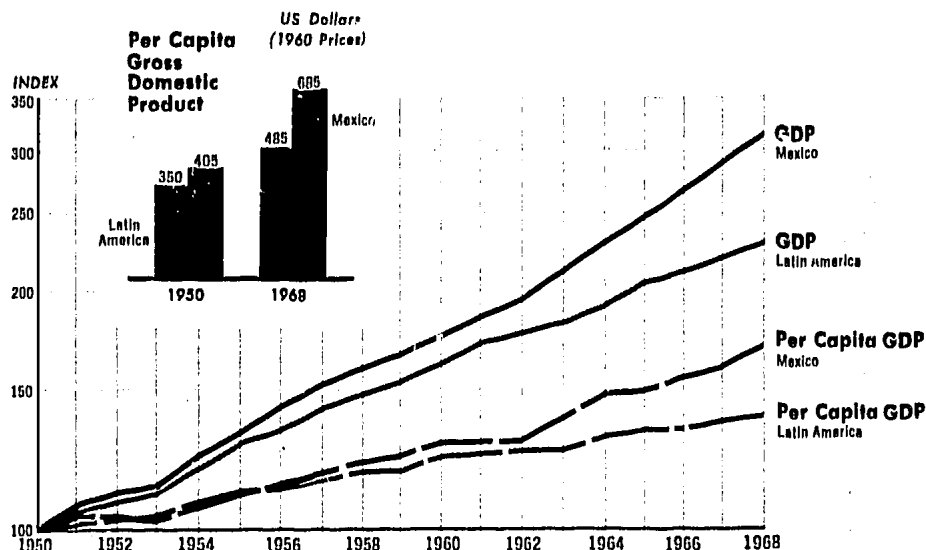
Economic Progress Since 1950

*Production and Trade*

11. Mexican economic policy has paid off handsomely. Real output has grown at an average rate of about 6-1/2% annually since 1950, in contrast to the overall Latin American figure of less than 5%. And whereas the Latin American rate declined slightly during 1961-68 from that of 1951-60, the rate for Mexico rose from 6% to 7%. Although Mexico's rate of population growth is high and has risen in recent years -- to an estimated 3-1/2% compared with 3% in the 1950s -- the rapid, long-continued economic expansion has brought large gains in output per capita (see the chart). From 1950 to 1968, while the Mexican population soared from 26 million to 47 million persons, the per capita gross domestic product rose from about \$405 to \$685 (both at 1960 prices).

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12. Mexico's agricultural programs have been fairly successful. Output has grown at the impressive average rate of 4-1/2% annually since 1950, almost half again as fast as the population. A net importer of farm products during World War II, Mexico has now become a net exporter in spite of its large population increase. During 1941-45, Mexico imported an average of nearly 2 million bushels of corn a year; in 1962-66 it exported an average of 20 million bushels a year. Imports of wheat averaged 9 million bushels annually during the earlier period, while exports of wheat averaged 10 million bushels during the latter period. Exports of winter fruits and vegetables, mainly to the US market, grew from about \$15 million in 1950 to \$113 million in 1968. Impressive gains were also made in production of cotton, coffee, and other export crops. Stock raising, with an average annual growth rate of 5% since 1950, has become increasingly important.

13. Manufacturing has been the fastest growing economic sector and is now the largest one, accounting for 34% of gross domestic product. Between

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1950 and 1967, output climbed by 226%, or an average of 7% a year. The sector is well diversified and includes industries producing durable consumer goods, steel, various chemicals, motor vehicles, and some producer goods. Although manufacturing is largely oriented toward the domestic market, it now accounts for an important share of exports. Prices of many Mexican manufactured goods are high by world market standards, but they are generally low by Latin American standards.

14. The mining industries have increased their output by 40% since 1950 -- providing increased iron and copper supplies for domestic industry; expanding exports of zinc, lead, mercury, and silver; and boosting sulphur production to about 11% of the world total. The petroleum industry, which was nationalized in 1938, has achieved a 240% growth in output since 1950. The industry has both met rapidly growing domestic needs and maintained a small net export surplus. Moreover, it has been operated efficiently enough to earn profits despite the controls on its prices.

15. Exports have increased from \$493 million to \$1.2 billion since 1950, reflecting an average 5-1/2% growth rate, and have become far more diversified. Cotton, for example, dropped from 25% of exports to less than 15%, while sulphur and tomatoes, which were only exported in negligible amounts in 1950, now each make up about 5% of total exports. Exports of manufactured goods have risen from less than 7% of the total in 1950 to almost 29% in 1969. Net earnings from the thriving tourist trade (including border trade) have jumped from \$147 million to \$510 million, and because of its political and monetary stability and exceptional growth rate, Mexico has had little difficulty in attracting foreign capital. These circumstances have permitted both an average 7-1/2% growth since 1950 for imports (which now consist almost entirely of production inputs and capital equipment) and a rise in foreign exchange reserves from about \$300 million to \$670 million at the end of 1968.

#### *Welfare*

16. Most Mexicans have benefited considerably from the economy's rapid growth. Private consumption per capita has increased at an average rate

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of about 2% annually (that is, by some 50% since 1950), even though fixed capital formation is now absorbing 22% of gross national product (GNP), compared with 12% in 1950. Average daily food intake per capita has increased from an average of 2,360 calories during 1951-54 to 2,680 in 1965, and there has been a slow shift toward increased consumption of meat, fish, and wheat at the expense of corn and beans. At present, 20% of Mexican families own a washing machine, 25% a refrigerator, 43% a blender, and 67% a radio. An estimated 70% of Mexico City's households now have a television set. Automobiles in use jumped from 173,000 in 1950 to well over a million in 1968, and new car sales are advancing at a 25% annual rate. Motorcycles, sold on easy credit terms, are within the reach of almost all factory workers.

17. Much of the rise in government consumption expenditures from 4% to 6% of GNP reflects growing attention to social needs. Government health programs helped to reduce the mortality rate from 17.9 per thousand in 1949 to 9.2 per thousand in 1967 and the infant mortality rate from 106 to 61 per thousand. Education has received great emphasis. The officially claimed literacy rate rose from 56% of the population over ten years of age in 1950 to 78% in 1963. Although these figures are probably inflated it is nevertheless a remarkable achievement considering that 11% of the people speak an Indian tongue as their first language. Elementary schools tripled in number from 1950 to 1965, and the proportion of the school-age population in school rose from 50% to 70%. The number of persons covered by social security programs of one sort or another increased from 973,000 in 1950 to 7.7 million in 1967.

### Economic Problems Through 1976

#### *The General Outlook*

18. Mexico's impressive record by no means indicates that the country is free of major economic problems, any more than are the world's most advanced and prosperous nations. The most serious economic problem -- and perhaps the most important political and social issue for the long term -- is a familiar one: the failure of many people to share

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fully in the general economic advance. This problem, which is aggravated by rapid population growth, manifests itself variously in lack of land for peasants, in unemployment and underemployment, in extremes in income distribution, and in the squalor of the cities to which many peasants have fled. If economic growth continues at a high rate, however, the Echeverria government will at least have a capability to do more about this problem than previous governments without severely altering established patterns of consumption and investment.

19. The outlook for growth through 1976 is favorable; Mexico probably will continue to be far less troubled than most Latin American countries by growth-inhibiting problems. It has a better chance of avoiding short-sighted, inconsistent, and frequently changing policies. It seems more able than most to maintain a high level of domestic savings. It probably will maintain reasonable price stability by continuing the responsible monetary and fiscal policies of past years. Finally, it probably will avoid creating an inhospitable climate for foreign investment, having already made domestic enterprise predominant in natural resource exploitation and made it clear that domestic participation is desired in foreign manufacturing ventures.

20. Although economic growth probably will be relatively rapid through 1976, it may not match the 7% rate of the 1960s even if new social welfare measures do not slow it. Expansion of the agricultural area, so important in the growth of farm output, will be more difficult and expensive than in the past. Import substitution efforts in manufacturing, which now must concentrate increasingly in the fields of intermediate products and producers' equipment, will be harder and may bring less net benefit than the replacement of consumer goods imports. Export earnings, although well diversified for a less developed country, remain vulnerable in certain respects. About 44% of exports consist of agricultural products (notably cotton, sugar, coffee, and tomatoes), sales of which are subject to restrictive international export arrangements or protectionist pressures in the principal importing countries. Another 15% of Mexican exports

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consist of metals, ores, and concentrates, prices of which may decline in the 1970s from their present high levels.

21. Although the economic growth rate achievable through 1976 is somewhat uncertain, it promises to be high. Mexico's economic expansion during the period thus should be able to accommodate some government efforts to improve income distribution. Although the government, which sees the need for action, will probably take steps in this direction, it is unlikely to make decisive -- certainly not revolutionary -- changes. Such changes could alienate a powerful sector of the government's support. Moreover, by reducing profits and savings, these changes might disturb the domestic investment climate and economic growth. If, however, another seven years are allowed to pass without facing the problems of the underprivileged -- if the government waits until conditions worsen, more people are alienated from it, and an atmosphere of crisis has appeared -- it will be all the more difficult to undertake social reform while preserving the broad support for the PRI.

*The Population Problem*

22. A major factor contributing to most of Mexico's problems is the population growth rate -- one of the world's highest. Moreover, this growth rate has been accelerating steadily and rapidly. The average annual rate was 1.7% during 1931-40, 2.8% during 1941-50, and 3.1% during 1951-60. At present, the rate is 3.5% -- compared with rates of 2.4% for the less developed nations as a group and 3.0% for Latin America. The nation's 1968 population of about 47 million is 35% greater than in 1960 and, at the present rate, will be over 60 million in 1976. Although the rural birth rate is higher than that of the cities and the death rate is not greatly different, the rural population has grown at only 1.5% a year because of large-scale rural-urban migration. As a result of this continuing migration, 58% of the population now lives in urban areas, compared with 43% in 1950. Mexico City, with a population of 7 million, is growing at a 5% annual rate, and Guadalajara and Monterrey, both with populations of over a million, are growing at 6% to 7% a year. Some smaller cities, such as Tijuana, have even higher growth rates.

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23. There is little likelihood that population growth will slow down in the next decade. Any decline in the birth rate will probably be offset by further declines in the death rate because of better public health measures. Private organizations have promoted population control for several years, and recently the PRI has expressed an intention to sponsor birth control clinics through its labor organization. The government, however, has continued to ignore the problem, and effective birth control programs seem unlikely under the next president, who is the father of eight children and an advocate of "populating the country." As urbanization continues, the growth of the rural population should slow down, but it probably will not cease until the late 1970s.

*The Agrarian Problem*

24. Although national agricultural performance has been good and Mexico can boast the hemisphere's most radical land redistribution (excluding Cuba\*), rural misery is widespread. Most responsible for the agricultural advance -- and the main beneficiaries of it -- are the 500,000 medium-sized and large commercial farms, which account for about 7% of the rural labor force of some 7 million persons, one-fourth of the cultivated land, and one-half of agricultural output. The families owning these farms, which range in size from 12 to several thousand acres, probably have average per capita incomes that are only slightly below the average annual urban income of about \$700 per capita. Below this group of relatively prosperous farmers are the 2-1/2 million farmers working on some 20,000 communal farms and the 1 million private landowners with plots of less than 12 acres. A large share of the families on these holdings have very low incomes and are living near the subsistence level. Nevertheless, many of them appear to be relatively content. Worst off of all are the 2 million landless peasants, who are responsible for most disturbances in the countryside.

\* Almost 173 million acres have been distributed in the land reform, which began during the Calles period (1924-34) and reached high points under Cardenas (1934-40), Lopez Mateos (1958-64), and the incumbent president, Diaz Ordaz (1964-70). This land equals 26% of the present total agricultural area.

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25. The Diaz Ordaz government has responded to the agrarian problem by accelerating land redistribution, investments in rural infrastructure, and the provision of credit. These measures have helped to reduce the number of landless peasants from about half of the rural labor force in 1960 to less than 30% in 1968. In 1968, there remained about 100 million acres -- mostly semi-arid grazing land -- to be redistributed, enough for about 40% of the landless peasants. Some of this land is already occupied by its future owners, and it is anticipated that all will be officially redistributed by the end of the Diaz Ordaz presidency in December 1970. Although only 66% of potential irrigated land has been put under irrigation and much fertile land in the southern jungles is underutilized, high capital costs involved will prevent rapid utilization of new lands. Infrastructure projects and credit provision will raise the standard of living of the small landowners and of landless peasants that can find work on commercial farms. With improving technology, however, the demand for labor on commercial farms is likely to decline while the rural labor force will continue to increase. Consequently, there will continue to be a large and growing number of rural unemployed with little future on the land and a temptation to go to the city to swell the ranks of the unemployed and underemployed or join guerrilla and bandit groups in Guerrero, Chihuahua, and other states.

*Unemployment and Inadequate Facilities  
in the Cities*

26. While the overt unemployment revealed in Mexico's limited labor statistics is low -- about 1-1/2% in 1960 -- there is ample evidence that many workers are not being fully utilized. Whether the situation is one of unemployment or underemployment is largely a matter of definition. The dimensions of the problem cannot be determined because of lack of statistics, but sociological studies indicate that a large part of the labor force is engaged in marginal or subsistence employment -- involuntarily working part time, casually, or seasonally. It is estimated that about half of the labor force in services and one-fifth of that in commercial activities fall in this category. Moreover, employment is not keeping pace with production, because Mexican

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industry and agriculture are turning to increasingly capital-intensive methods in an effort to compete internationally.

27. Population growth has seriously strained urban facilities. In 1970, an estimated 1.9 million new dwellings will be needed to accommodate the increased population and to replace substandard housing, and by 1980, 4.4 million units will be needed. Because of recent high birth rates, 46% of the population is below the age of 14, and needs for schools, day-care centers, and similar institutions are correspondingly great. The largest cities face tough problems of transportation, waste disposal, water supply, and public health. The Mexican government is well aware of these problems and has taken some action, although not enough to ease them much. Several low-cost housing programs have been initiated. One line of Mexico City's \$320 million subway system is now in use, and the entire system will be completed in 1970. Another subway is being planned for Guadalajara. The pace of other urban infrastructure projects has been increased. It is doubtful, however, if these projects can do more than keep pace with rising urban populations, and, at best, make slow inroads on long-standing problems.

*Growing Inequality of Incomes*

28. Although Mexico's income distribution is more equitable than that of most Latin American countries, it nevertheless is a major social and (potentially, at least) political problem. Furthermore, inequality of income appears to have increased since 1950 because of continuing low productivity in some sectors and the use of high profits as an engine of economic progress. The three lowest deciles of wage earners received only 6% of total wages and salaries in 1964-65, compared with 13% in 1950 (see Table 1). The highest decile, on the other hand, increased its share of this income from 31% to 36%. Since 1956 the middle deciles also have gained at the expense of the lowest wage earners. The real income of an important sector of the population is falling absolutely as well as relatively. In 1950, 12% of the labor force received less than 75 pesos per month. By 1964-65, 19% of the labor force received less than this amount after price changes are taken into consideration.

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Table 1

## Distribution of Wage and Salary Income

<u>Decile of Wage Earners</u>	<u>Percent of Total Income</u>		
	<u>1950</u>	<u>1956</u>	<u>1964-65 Average</u>
Lowest	3	1	2
2nd	5	3	2
3rd	5	4	2
4th	5	5	7
5th	7	6	8
6th	8	7	8
7th	9	9	8
8th	11	12	12
9th	16	16	17
Highest	31	37	36
<i>Total a/</i>	<i>100</i>	<i>100</i>	<i>100</i>

*a. Because of rounding, components may not add to the totals shown.*

29. Mexican income distribution is skewed further if other occupational classes and sources of income are considered, even though the poorest workers benefit most from social security payments, often hold two full-time jobs, and generally have more workers per family. The lowest classes include disproportionate numbers of people that have little or no income -- the unemployed, subsistence farmers, and dependents. Persons in the upper wage-earning deciles, on the other hand, receive most of the dividend, interest, and rent income.

30. As would be expected, Mexico's greatest concentrations of low-income families are found in agriculture and the service trades, in the smaller cities and towns, and in the inhospitable central and southern regions. About 90% of the people employed in agriculture and 92% of those in service occupations have incomes of less than 750 pesos a month (about \$80 on a purchasing power basis). The share is 76% for the total labor force and 67% in

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manufacturing and transportation (see Table 2). Average family income is almost four times greater in cities of more than 500,000 people than in villages of less than 2,500. As the following tabulation for 1963 shows, average family incomes in the Federal District (Mexico City) and in the North Pacific region near California were almost three times those in the South and Central regions and twice those in the North and Gulf of Mexico regions.

	<u>Average Monthly Family Income (Pesos)</u>
Republic of Mexico	693
Federal District	1,282
North Pacific Region	1,189
Gulf of Mexico Region	689
North Region	675
Central Region	464
South Region	447

It is significant that among the states with the lowest average incomes are Yucatan, a perennially separatist area where the PRI is currently in serious political trouble, and Guerrero, where guerrilla and bandit activity is a major problem.

31. Increasing inequality of incomes obviously entails long-run dangers for Mexican political stability, because the PRI's long rule has been based on its ability to satisfy all important groups -- business, labor, and the peasantry. If the PRI adopts a strongly leftist course to reduce income disparities, some business support might be lost to the relatively conservative National Action Party and capital investment might be dampened. On the other hand, if the PRI does not take more effective action than in the past, some under-privileged groups might follow one of the several Marxist parties, and the industrial peace that has been so important to Mexican progress could be lost. Under such circumstances, a split of the PRI into antagonistic factions might well occur. Whatever course the PRI follows -- and the odds favor a moderate course -- it would be advantageous to attack the problems promptly, before they get worse.

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Table 2

Distribution of Labor Force by Income Level  
1964-65 Average

Monthly Income (Pesos <sup>a/</sup> )	Percent of Total					
	Total Labor Force	Agri- culture	Trade	Manufacturing and Transportation	Extractive Industry	Services
Less than 300	34	49	21-1/2	18	14-1/2	56-1/2
300 - 749	41	41	48	49	47	35-1/2
750 - 999	8-1/2	4	10	15-1/2	16	4
1,000 - 1,500	9-1/2	3-1/2	11	13	13-1/2	2-1/2
1,501 - 2,000	2-1/2	1	3-1/2	2	5-1/2	1
2,001 - 3,000	2	1	3-1/2	2	1	Negl.
Above 3,000	2	1/2	2-1/2	1/2	2	1/2
Total <sup>b/</sup>	100	100	100	100	100	100

a. In 1965 the peso was valued officially at 8 US cents and had an estimated purchasing power of 11 US cents.

b. Because of rounding, components may not add to the totals shown.

**SECRET**Conclusions

32. Mexico's achievement of a 6% average annual growth rate since the mid-1930s -- perhaps the world's highest for the period -- is the result of political stability, effective economic strategy and government control, and proximity to the expanding US economy. Economic policy has emphasized relatively rapid agricultural growth, careful development of industry, the maintenance of conservative fiscal and monetary policies, and strong emphasis on domestic savings rather than foreign capital in obtaining an adequate rate of investment. These factors have given Mexico the soundest and best balanced economy in Latin America.

33. The economy does, however, face a serious long-run problem -- the failure of many people to share fully in the general economic advance. In the rural sector, misery is widespread in spite of the hemisphere's most radical land reform (excluding Cuba) and an adequate rate of agricultural production. More than 3 million farmers on small holdings or communal farms have incomes of less than \$100 a year, and the 2 million landless peasants are even worse off. Many of these peasants drift to the city to swell the ranks of the urban unemployed and underemployed and put additional pressure on already strained urban facilities. A large part of the urban labor force can find only casual work and is frequently unemployed. All of this is reflected in a growing inequality of incomes. Between 1950 and 1964-65, the wage and salary share of the lowest 30% of the workers fell from 13% to 6%, while that of the upper 10% rose from 31% to 36%. Moreover, the incomes of a large number of people declined absolutely as well as relatively.

34. Mexico's welfare problem is aggravated by a high and accelerating population growth rate. This rate, which was 1.7% during 1931-40, is now 3.5% -- one of the world's highest. At this rate, by 1976 the population will have grown from 47 million to more than 60 million and the labor force from 15-1/2 million to about 21 million. If migration to the cities continues through 1976 at the rate of the past ten years, some 4 million workers would be

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added to the urban labor force, perhaps causing a significant increase in the number of underemployed. At the same time, the rural labor force will have increased by about 1.4 million -- most of whom will join the ranks of the landless peasants, thus much more than offsetting the reduction in their numbers expected during the remaining year of the Diaz administration.

35. Continued rapid economic growth through 1976 should allow the government to take modest measures toward more equitable income distribution without seriously alienating the more prosperous classes. Although vulnerable areas remain in the economy -- especially with regard to the balance of payments -- output should continue to grow at about 6% annually and price stability probably will be maintained. If the government makes radical changes in the present distribution of income, important business support might well be lost and capital investment dampened. On the other hand, delay of another five or ten years or merely nominal reform efforts could cost the government peasant and labor support and might lead to a split in the ruling party.

36. The government and the party seem likely to take a middle course that may, at best, only keep Mexico's economic and social problems from intensifying. The ultimate solution will be to expand the market for Mexican manufactured goods both in the country and abroad so that an increasing share of the labor force can be employed in productive, remunerative jobs in that sector. In the meantime, new labor and tax laws, some of which will be put into effect in 1970, will help to transfer some income from the upper and middle classes to the poor. The opening of new lands through irrigation will continue slowly, and substantial additional resources probably will be allocated to agriculture in an effort to raise rural incomes. The party's belated and tentative support of birth control may become firmer, but population growth is unlikely to slacken significantly in the 1970s.

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